Report to the shareholders

Contents

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Highlights

(in thousands except for amounts per common share)

	Fifteen months ended June 30th 1968	Twelve months ended June 30th 1968	June 30th 1967
Sales	$208,646	$172,214	$149,778
Loss from operations	(4,320)	(2,971)	(7,953)
Revenue from marketable securities and from investment in 50% owned company	631	498	550
Income tax credit	8,056	6,190	5,502
Net income (loss) from operations	4,367	3,717	(1,901)
Profit on sale of fixed assets and marketable securities	933	681	1,173
Net income (loss) for the period	5,300	4,398	(728)
Per common share			
Net income (loss) for the period	$ 2.00	$ 1.66	$ (.32)
Dividends	1.05	.80	1.00
Depreciation	$ 11,934	$ 9,547	$ 9,329
Interest on borrowed money	8,154	6,559	5,214
Additions to fixed assets	$ 4,852	$ 3,333	$ 15,051

The fiscal year-end of the Company has been changed from March 31st to June 30th effective 1968.

To allow for meaningful comparison of the results of operations, the above unaudited figures are presented for the years ended June 30th 1967 and 1968, in addition to the audited statement of income for the fifteen months ended June 30th 1968.

Report to Shareholders

The fifteen months covered by the fiscal period which ended on June 30, 1968, was a time of considerable adjustment for the entire textile industry and particularly for the companies in the Dominion Textile group.

The results for the period, highlights of which are shown on the opposite page, did not attain the levels we had anticipated. The improving trends and the results of new programmes we have instituted were sufficiently pronounced however when measured against the background of the problems in the industry and the economy, at home and abroad, to justify a feeling of accomplishment.

A slackening in the level of the textile business during the early part of the year combined with a tighter and more expensive supply of credit as the year wore on led to inventory reductions by our customers. A soft market in the United States and the heavy flood of imports from low-cost countries in the form of fabrics and garments forced us to curtail production in several areas with resulting losses and had the definite effect of bringing about lower prices.

The high cost of borrowed money, higher raw cotton prices despite anticipatory purchases, higher wages and fringe benefits, as well as increases in nearly all other costs, formed the other elements of the cost-price-squeeze that were reflected in the operating loss incurred during the fiscal period.

Effective steps have been taken to bring our inventory into better balance. Efforts are continuing to improve efficiency in every phase of our operations and demanding but realistic targets have been set towards which the entire corporate effort for the coming year has been geared.

In recent months the volume of sales and customers' orders booked have exceeded those for similar periods a year ago by a considerable margin and if the economy continues to move in its present direction our operating results for the next fiscal year should show impressive improvements. We look forward to the coming year with confidence and expect sales to exceed the record levels of 1966 and that earnings will re-establish a pattern of long-term growth.

The volume of imports from the low-cost countries in Asia and eastern Europe remains the most serious problem for the Canadian textile industry and, indeed, for a great many Canadian industries.

Canadian manufacturers generally do not seek, nor do they expect, to shut out foreign goods from our market. We believe, however, that it is essential for our government to develop a trade policy, along the lines established by most other developed nations, which will more clearly define the areas and the degree to which low-cost imports will enter our domestic market and share in its future growth.

Fully appreciating the difficulties inherent in our situation as a trading nation, we believe that government and

industry must work in concert to formulate this policy.

It is imperative that particular emphasis be placed on the retention of those lines which can be produced in larger quantities, by Canadian standards of volume, at reasonable cost if we are to achieve the greater degree of rationalization recommended by so many authorities.

If this is not done, manufacturers will find increasing difficulty, not only in maintaining present operations, but also in planning effectively for the new products and capital expenditures required to maintain a high level of employment in the coming years.

We strive to improve our productivity by modernizing our plants, by rationalizing our production within the limitations of the Canadian market and by expanding our export business at every opportunity. We are constantly re-examining our role in the world textile picture in the light of trends towards freer trade and will continue to adapt to changing conditions.

Changes have been made in our financial reporting this year. The principal one was the decision to change our year-end to June 30 to coincide more closely with the normal seasonal patterns of our business.

For the first time we have consolidated the results of Howard Cotton Company of Memphis, Tennessee, the subsidiary which purchases our raw cotton, and those of Dominion Textile Company (U.K.) Limited, our sales organization for the United Kingdom and Europe. Neither of these companies has had a material effect on the operating results for the fiscal period, but their inclusion in the statements gives a more complete picture of our over-all operations.

The format of the annual report itself has also undergone considerable change and a good deal of additional information with respect to our operations has been included which will further assist the shareholder in assessing the progress and direction of the Company.

It is with sincere regret that we announce the retirement of two of your Directors.

After over 45 years of service in the interests of the Company, Mr. G. Blair Gordon has expressed the wish that he not stand for re-election to the Board of Directors at the forthcoming Annual General Meeting.

From the year 1933, when he became Managing Director, Mr. Gordon continued in office until he relinquished the position of Chairman of the Board in 1966. It is difficult to find words to express adequately our appreciation for his many contributions toward the advancement of the Company.

Mr. Jack Pembroke, C.B.E., is not standing for re-election at the coming Annual Meeting in accordance with the By-laws of the Company. Mr. Pembroke has brought the benefit of his broad experience and lively interest to the guidance of your Company's affairs and his contribution is gratefully acknowledged.

We are honoured that Mr. Arthur Pascal and Mr. Cal. N. Moisan have consented to stand for election to the Board of Directors of your Company at the Annual General Meeting.

The excellent efforts and co-operation of our employees at all levels, so much in evidence during the difficult year just passed, strengthen our optimism for the future.

Submitted on behalf of the Board,

F. R. DANIELS
Chairman of the Board

E. F. KING
President

Montreal, Quebec,
August 9th, 1968.

Report on the Year's Operations

Marketing

The pattern of sales growth extending back to 1960 which was interrupted in 1967 was restored during the latest fiscal period. Consolidated sales of $168 million for the twelve months ended March 31, 1968 were the second highest recorded by the Company for a comparable period. Sales in the June quarter just completed exceeded those for the same quarter a year ago by $4.3 million or 11%.

The unfilled order position of approximately $35 million at June 30, 1968 was about 32% higher than a year ago.

The products produced and sold by Dominion Textile and its operating subsidiaries covered almost every aspect of the textile business from specialty products for industry to goods ready for sale to consumers. Divided into four main classifications the total sales of $208.6 million during the fiscal period were made up as follows:

Cotton and blended yarn for knitters and weavers	14%
Industrial fabrics for use in the manufacture of a diverse range of other products	20%
Fabrics for the apparel trades in cotton and blends of cotton and man-made fibres	32%
Finished items such as sheets, pillow slips, blankets, towels, draperies and knitted apparel	34%

Total export sales included in these figures amounted to $13.7 million. Products were sold in 32 markets with the volume mainly in the United Kingdom and other Commonwealth countries. The substantial volume in this area was sustained throughout the latter part of the year despite the problems that arose through devaluation and trade restrictions.

The proportion of production containing man-made fibres is increasing steadily and currently represents about 23% including tire cord. In the apparel area however, fabrics of man-made fibres and blends account for close to 35%. This trend accelerated in Canada during the past year and we anticipate an even greater demand for fabrics and yarns of these versatile fibres through the continued introduction of new products and fabric styles.

The past fifteen months was a difficult but encouraging period. The Company entered the year with a heavy inventory of grey and finished goods and efforts to effect an orderly reduction and to produce a more satisfactory balance were hindered by a number of factors. Chief among these were increased imports of sales yarn, blankets, sheets and blended fabrics in the form of piece goods and finished garments; strikes involving some of our important customers such as the automotive industry and a less than buoyant market for textiles generally in the earlier part of the year.

To offset these problems special efforts have been directed towards the development and introduction of new products and styles, such as the Tru-prest sheet, to assure an increased and profitable participation in the growing Canadian market for textiles. The Marketing Division was restructured to better serve the changing markets; the use of computers for market analysis, planning, forecasting and control was extended and a great deal of work was done in conjunction with both suppliers and customers to find new ways to expand the uses of our fabrics and yarns.

Emphasis was and is being placed on those areas of the market where style, quality and service permit the Company to achieve a satisfactory level of volume at more attractive margins.

Manufacturing

As forecast in the 1967 annual report, no major additions were made to our production facilities. $4.9 million was spent during the past fifteen months mainly to complete projects already under way in the previous year at Caldwell's Iroquois plant, for additional towel capacity, and for the modernization of the Drummondville plant. The balance was spent on the continuing programme to improve efficiency and to rearrange production facilities to permit the production of blend fabrics as demand warrants.

In recent years an evaluation of our plants has indicated that there were several that could not be successfully modernized and changed over to the production of new products on a competitive basis. This led to previously announced decisions to close three of the older plants. The Merchants Mill was closed and the property disposed of during the period while the Domil Finishing Plant in Montreal and the Specialty Mill in Valleyfield will be phased out gradually during the course of the 1969 fiscal year.

These steps were taken reluctantly recognizing the dislocation that such moves bring about for our employees and their families. In this connection we have worked very closely with the Federal Department of Manpower and Immigration, the Provincial Department of Labour and the Unions involved to minimize these problems. Our first efforts have been to absorb as many employees as possible elsewhere in our operations. Failing this, a retraining programme has been worked out in co-operation with the above government departments.

A matter of great concern in the manufacturing area during the year was the difficulty in maintaining our production facilities at a sufficiently high level of operation. General market conditions made it necessary to run shorter hours in a number of mills and to close down production in certain departments and in some cases entire plants at intervals.

This combined with reorganizing of equipment, the rescheduling of styles and the running-in of the newer Long Sault, Caldwell and Beauharnois plants reduced efficiency and resulted in substantial additional expense in the early part of the period.

The large capital investment represented by modern plant and equipment and the heavy fixed costs involved made it impossible for the Company to achieve a satisfactory rate of overhead absorption at the production levels attained. The minimum required is a plant operation of 5 days three shifts.

With lower inventories, a forecast for improved sales, and the benefits to be derived from the many changes made during the period, a substantially higher rate of operations is expected in 1969.

Our expenditures on plant and equipment for the 1969 fiscal year are projected at approximately $4.0 million. While no new major projects are contemplated at this time we continue to keep in touch with and explore all possibilities of new machinery developments. Capital expenditures will be involved wherever the necessity arises to protect our position in the industry.

Subsidiaries

Caldwell Linen Mills Limited

Results have been very disappointing. Unusually difficult labour problems, combined with the start-up of new machinery, resulted in unsatisfactory manufacturing and delivery situations.

We feel that this situation has been largely corrected and look forward to much improved operations in the new fiscal year.

Penmans Limited

The consolidation and modernization programme mentioned in last year's report has continued and will continue through most of the new fiscal year.

Savings to be effected through improved operations and the substantial gains we have made in the industrial knit-goods field lead us to reaffirm our confidence in this operation.

Sales during the fifteen months to June 30, 1968 totalled $18.1 million, an increase of 2.6% over the comparable period a year ago.

Financial

For the fifteen-month fiscal period ended June 30, 1968, total sales amounted to $208.6 million. Net income from operations for the period amounted to $4.4 million which is equivalent to $1.64 per common share after preference dividends. Including the profit on sales of marketable securities and fixed assets, of which $838,000 is attributable to the latter, net income was $2.00 per share.

Regular quarterly dividends of $1.75 per share were paid on the 7% cumulative preference shares and a total dividend of $1.05 per share was paid on the common stock during the fiscal period. This compares with $1.00 per share for the previous year ended March 31, 1967 or $1.25 for the comparable fifteen-month period.

Operating expenses amounted to $213.0 million and break down as follows:

Raw materials	30.0%
Labour	25.4
Supplies	8.0
Other manufacturing expenses	18.4
Depreciation	5.6
Selling and administrative expenses	8.9
Financial expense	3.7
	100.0%

Income taxes remain a most significant item on the consolidated statement of income. While they are dealt with extensively in Notes 4 and 6 to the consolidated financial statements, there are several points which may assist in providing a clearer understanding of their treatment.

With the exception of a small loss carry-back to 1967 by one of the subsidiary companies, the entire $8.0 million credit for income taxes applies to the 1968 fiscal period. No tax on the loss carry-forward from previous years has been taken up and the method used will not result in a higher than normal rate of taxation being reflected in the financial statements in future years. Income taxes recoverable of $2.4 million remaining on the 1967 losses continue to be carried forward and have not been recorded in the accounts.

In April 1968 Richelieu Fabrics Limited completed the prescribed three years as a designated area company for income tax purposes and its earnings since that date are subject to normal income tax. The earnings of Long Sault Fabrics Limited will not be subject to tax until April 30, 1969 and those of Long Sault Yarns Limited until November 30, 1969.

Working capital is $1.1 million lower at June 30, 1968 than it was at March 31, 1967, however the current position has shown a marked improvement. Short term indebtedness to banks and other lenders has been reduced by $10.7 million and inventories by $4.1 million.

It should be noted that the March 1967 figure for bank loans has increased by $11.1 million from the figure published in the 1967 annual report and that a corresponding change has taken place in the inventory. This reflects the consolidation of Howard Cotton Company and represents borrowings under Howard's own lines of credit for cotton held by them in southern warehouses. The comparable 1968 borrowing figure is $2.8 million.

No sinking fund instalments are due on the Series "A" or Series "B" Debentures in the 1969 fiscal year. $1,875,000 of serial debentures mature on April 15, 1969 and have been included in current liabilities.

Fixed assets disposed of during the fiscal period had an original cost of $7.4 million. The reduction is mainly due to

the sale of the Merchants Mill and some surplus equipment. It is of interest that the net assets of $62.1 million shown on the consolidated balance sheet are insured for more than $265 million on a replacement basis, exclusive of land.

Organizational Changes

Several important changes have taken place in the senior management levels of the Company and its subsidiaries since the end of the last fiscal year. R. H. Perowne, formerly Vice-President — Marketing, became Vice-President and General Manager. His responsibilities in the Marketing Division were assumed by T. R. Bell who was appointed Director of Marketing.

W. A. Eversfield, who served the Company in many capacities, retired as Vice-President — Finance in September 1967. His remarkable career with Dominion Textile covered more than fifty years of continuous service. C. A. McCrae, formerly Treasurer, was appointed Vice-President – Finance to succeed Mr. Eversfield.

L. G. McDonough was made General Manufacturing Manager, Grey Mills to succeed D. W. Johnston, a former Vice-President, who resigned to accept a senior post in the United States.

R. W. Midgley became Vice-President and General Manager of Penmans Limited following the retirement of E. G. James for reasons of health in April 1968.

Employee Relations

The companies in the Dominion Textile group employed 10,613 people at June 30, 1968 down from 13,205 at March 31, 1967. A total of $76 million in salaries, wages and employee benefits was paid during the period.

The Company continued its policy of revising and extending its education and benefit programmes for all employees to keep in the forefront of developments in these areas.

The collective labour agreements at most of our mills will expire in February 1969. Relations with our employees have generally been very good throughout the life of these contracts and efforts have been made by both the Unions and the Company to maintain and improve communication between the groups. It is to be hoped that, as a result, the forthcoming negotiations will be approached in a realistic and understanding manner by all concerned.

Centennial Scholarships

Scholarships providing university careers of four or five years were granted to a second group of twelve young Canadians under the Company's Centennial Programme:

Claire Barnabé*, Montreal
Irène Castonguay*, Ville Lemoyne
Ninfa De Candido, Île Bizard
Jacques Désilets, Drummondville
Denise Desrosiers, Drummondville
Gilles Généreux*, Drummondville
Raymond Guay*, Drummondville
René Morissette, St. Germain
Dwayne Myers, Northfield Station
Réal Paul-Hus*, Drummondville
Michel Thamain, Chambly
Jacques Tremblay, Montreal.

These young people began their university careers in September 1967. Those names which appear with an asterisk identify children of Dominion Textile employees.

Consolidated Statement of Income

for the fifteen months ended June 30th 1968

	Fifteen months ended June 30th 1968	Year ended March 31st 1967
Sales	$208,646,245	$129,585,146
Operating expenses, including interest on long term debt of $3,978,507 in 1968 and $1,950,551 in 1967 (Note 7)	212,966,301	141,791,645
Loss from operations	(4,320,056)	(12,206,499)
Revenue from marketable securities and from investment in 50% owned company	630,774	534,007
	(3,689,282)	(11,672,492)
Income tax credit (Note 6)	8,056,361	6,998,056
Net income (loss) from operations	4,367,079	(4,674,436)
Profit on sale of fixed assets and marketable securities	933,417	996,456
Net income (loss) for the period	$ 5,300,496	$ (3,677,980)
Per common share, after preferred dividends	$ 2.00	$ (1.45)

Consolidated Statement of Retained Earnings

for the fifteen months ended June 30th 1968

	Fifteen months ended June 30th 1968	Year ended March 31st 1967
Retained earnings at beginning of period		
As previously reported	$ 52,024,749	$ 58,262,883
Retained earnings of foreign subsidiaries consolidated for the first time (Note 1)	1,202,816	1,310,624
As restated	53,227,565	59,573,507
Net income (loss) for the period	5,300,496	(3,677,980)
	58,528,061	55,895,527
Deduct:		
7% preferred dividends	119,434	97,601
Common dividends		
Year ended March 31st — $0.90 per share in 1968, $1.00 in 1967	2,336,197	2,570,361
Quarter ended June 30th 1968 — $0.15 per share	389,366	—
	2,844,997	2,667,962
Retained earnings at end of period	$ 55,683,064	$ 53,227,565

Consolidated Statement of Source and Application of Funds

for the fifteen months ended June 30th 1968

	Fifteen months ended June 30th 1968	Year ended March 31st 1967
Funds provided		
Net income (loss) from operations	$ 4,367,079	$(4,674,436)
Non cash items		
Depreciation	11,934,196	9,257,056
Deferred income taxes	(8,421,742)	(2,491,352)
	7,879,533	2,091,268
Proceeds from issue of 6¾% Debentures, Series B	—	19,887,500
Sale of fixed assets and profit on sale of marketable securities	1,891,158	1,067,186
	9,770,691	23,045,954
Funds applied		
Additions to fixed assets	4,852,049	19,314,051
Long term debt redeemed or due for redemption within one year	2,465,000	—
Dividends	2,844,997	2,667,962
Other	767,303	161,004
	10,929,349	22,143,017
Increase (decrease) in working capital	$(1,158,658)	$ 902,937
Working capital at beginning of period		
As previously reported	$50,928,904	$49,912,953
Working capital of foreign subsidiaries consolidated for the first time (Note 1)	1,341,914	1,454,928
As restated	52,270,818	51,367,881
Increase (decrease) during period	(1,158,658)	902,937
Working capital at end of period	$51,112,160	$52,270,818

Auditors' Report

The Shareholders,
Dominion Textile Company Limited.

We have examined the consolidated balance sheet of Dominion Textile Company Limited and subsidiary companies as at June 30th 1968 and the consolidated statements of income, retained earnings and source and application of funds for the fifteen months then ended. For Dominion Textile Company Limited and those of the subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to the remaining subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for purposes of consolidation the reports of the other auditors.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30th 1968 and the results of their operations and the source and application of their funds for the period then ended, in accordance with generally accepted accounting principles. We also report that these principles have been applied on a basis consistent with that of the preceding year except that deferred income taxes have been recorded on the 1968, but not on the 1967, loss carry forward, as explained in note 4 to the consolidated financial statements.

Touche, Ross, Bailey & Smart,
Chartered Accountants.

Montreal, Que.
August 7th 1968.

Consolidated Balance Sheet as at June 30th 1968

Dominion Textile Company Limited and subsidiary companies

ASSETS	June 30th 1968	March 31st 1967
Current assets		
Cash and short term deposits	$ 1,524,813	$ 801,146
Accounts receivable	22,035,037	23,312,559
Taxes recoverable	82,661	4,851,816
Inventories — at lower of cost and net realizable value (Note 2)	70,560,622	74,687,567
Marketable securities — at cost (market value 1968 — $5,831,100; 1967 — $9,169,292)	5,905,786	8,895,015
Prepaid expenses	1,074,535	760,685
	101,183,454	113,308,788
Investments and advances — at cost (Note 3)	3,772,505	3,088,885
Fixed assets		
Land, buildings, machinery and equipment — at cost	178,197,496	180,840,037
Less: Accumulated depreciation	116,109,883	110,712,921
	62,087,613	70,127,116
Deferred charges		
Income taxes (Note 4)	10,199,370	1,777,628
Unamortized debenture expense	276,104	319,006
	10,475,474	2,096,634
	$177,519,046	$188,621,423

On behalf of the Board:

F. R. Daniels, Director

E. F. King, Director

LIABILITIES	June 30th 1968	March 31st 1967
Current liabilities		
Bank indebtedness	$ 10,168,881	$ 26,825,918
Short term notes	27,800,000	21,857,770
Accounts payable and accrued liabilities	8,067,719	9,519,749
Dividends payable	408,171	665,684
Income and other taxes	1,751,523	2,168,849
Long term debt due within one year	1,875,000	—
	50,071,294	61,037,970
Long term debt (Note 5)	49,535,000	52,000,000
Minority interest in preferred shares of a subsidiary	618,800	691,300
SHAREHOLDERS' EQUITY (Note 9)		
Capital stock		
7% Cumulative Preference		
Authorized — 20,000 shares $100 par value		
Outstanding — 13,322 shares (1967 — 13,859 shares)	1,332,200	1,385,900
Common		
Authorized — 7,500,000 shares no par value		
Issued — 2,595,774 shares	20,278,688	20,278,688
Retained earnings	55,683,064	53,227,565
	77,293,952	74,892,153
	$177,519,046	$188,621,423

Notes to Consolidated Financial Statements June 30th, 1968

Dominion Textile Company Limited and subsidiary companies

Note 1

PRINCIPLES OF CONSOLIDATION

The 1968 consolidated financial statements include the accounts of Dominion Textile Company Limited and all its subsidiary companies, the accounts of the two foreign subsidiaries (Howard Cotton Company and Dominion Textile Company (U.K.) Limited) being included for the first time. The 1967 figures have been restated to include the accounts of these subsidiaries.

The Company has changed its year end from March 31st to June 30th and consequently the consolidated financial statements cover a fifteen month period from April 1st 1967 to June 30th 1968.

Assets and liabilities in foreign currencies have been converted at the exchange rates prevailing at June 30th 1968.

Note 2

INVENTORIES

	June 30th 1968	March 31st 1967
The main inventory classifications are as follows:		
Raw materials	$19,003,558	$22,041,238
Work in process, including greys in bales for further processing	21,177,007	23,693,576
Finished goods	25,680,958	24,797,495
Supplies	4,699,099	4,155,258
	$70,560,622	$74,687,567

Note 3

INVESTMENTS AND ADVANCES

	June 30th 1968	March 31st 1967
Investment in a 50% owned company	$ 1,603,125	$ 1,603,125
Other investments and advances	2,169,380	1,485,760
	$ 3,772,505	$ 3,088,885

The equity of Dominion Textile Company Limited in the 50% owned company amounted to $2,265,519 at its latest fiscal year end (December 31st 1967) and the Company's share of the net income, before dividends, of this company for the year then ended amounted to $129,205. Dominion Textile Company Limited received a dividend of $74,812 from this 50% owned company and this dividend is included in income for the period.

Note 4

DEFERRED CHARGES — INCOME TAXES

	June 30th 1968	March 31st 1967
Deferred income tax charges result from:		
Recording the income tax benefits which are expected to be realized in future years by applying the 1968 loss carry forward to reduce future taxable income. These income tax benefits are contingent on earning future profits against which the 1968 loss may be applied. In the view of management it is virtually certain that these benefits will be realized and, in accordance with the recommendations of the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants, the reduction of future income taxes has been recorded in the current period	$ 7,355,259	—
The income tax benefits of $2,360,000 on the 1967 loss carry forward have not been recorded in the accounts.		
Certain subsidiary companies providing depreciation in their accounts and not claiming any capital cost allowances for income tax purposes. These companies operate in designated areas and are exempt from income taxes for a period of three years. The companies concerned are operating at a profit and it is expected that the deferred income tax charges will be applied to those future periods in which the capital cost allowances for income tax purposes will be greater than the depreciation recorded in the accounts	3,214,970	$ 1,777,628
Other	(370,859)	—
	$10,199,370	$ 1,777,628

Note 5

LONG TERM DEBT

	June 30th 1968	March 31st 1967
5⅝% Sinking Fund Debentures, Series A due March 31st 1988		
Authorized and issued $32,000,000 less purchased for redemption	$31,410,000	$32,000,000
Sinking fund payments of $960,000 are due March 31st in each of the years 1970 to 1987		
6¾% Serial Debentures, Series B maturing in annual instalments of $1,875,000 April 15th 1969 to April 15th 1972		
Authorized and issued	7,500,000	7,500,000
6¾% Sinking Fund Debentures, Series B due April 15th 1990		
Authorized and issued	12,500,000	12,500,000
Sinking fund payments of $375,000 are due April 15th in each of the years 1972 to 1989		
	51,410,000	52,000,000
Deduct:		
6¾% Serial Debentures, Series B due April 15th 1969 — included in current liabilities	1,875,000	—
	$49,535,000	$52,000,000

Note 6

INCOME TAXES

	Fifteen months ended June 30th 1968	Year ended March 31st 1967
The income tax credit included in income comprises the following:		
Income tax benefits expected to be realized in future years by applying the 1968 loss carry forward to reduce future taxable income (the income tax benefits of $2,360,000 on the 1967 loss carry forward have not been recorded in the accounts)	$ 7,355,259	—
Income tax on the change in inter-company profits in inventory (such profits are eliminated in the consolidated financial statements)	(780,717)	$ 261,708
Credit resulting from subsidiary companies in designated areas providing depreciation in their accounts and not charging any capital cost allowances for income tax purposes	1,437,342	1,236,526
Reversal of deferred income tax credit recorded in 1966 on the excess of capital cost allowances for income tax purposes over depreciation provided in the accounts	—	1,254,826
Recovery of income taxes paid by applying losses against income previously earned	69,271	4,110,343
Overprovision of prior years' income taxes	26,560	356,852
Income tax provided by companies with taxable income	(51,354)	(222,199)
	$ 8,056,361	$ 6,998,056

Note 7

STATUTORY INFORMATION

	Fifteen months ended June 30th 1968	Year ended March 31st 1967
Operating expenses include:		
Depreciation	$11,934,196	$9,257,056
Remuneration of directors, including remuneration of those who are officers	323,157	254,891
Remuneration of officers who are not directors	257,613	215,585

Note 8

ANTICIPATED CAPITAL EXPENDITURES

Capital expenditures for the year ending June 30th 1969 are estimated to be $4,000,000.

Note 9

RESTRICTIONS UNDER TRUST DEED

The Deed of Trust and Mortgage relating to the long term debt contains certain restrictions, customarily found in Deeds of this type, pertaining to the amount of long term debt which may be issued, the declaration or payments of dividends and the reduction of capital. At June 30th 1968 the amount of shareholders' equity not restricted under the terms of the Trust Deed was $6,578,000.

Note 10

PENSION PLAN

The unfunded past service pension liability under the Non-Contributory Pension Plan covering hourly-paid employees amounted to approximately $7,000,000 at June 30th 1968. This liability is expected to be amortized over a period of 20 years beginning in 1969.

Ten-Year Summary

Dominion Textile Company Limited and subsidiary companies

In thousands of dollars	1959	1960	1961	1962	1963
Sales	$99,241	$97,425	$103,185	$124,224	$137,324
Income taxes	2,765	2,838	4,444	4,201	5,292
Net income (loss)*	2,797	2,701	3,609	4,357	5,053
Working capital	35,247	33,935	35,556	36,466	36,298
Working capital ratio	3.79	2.92	2.87	2.40	2.71
Additions to fixed assets	1,845	4,796	3,816	5,900	7,104
Provision for depreciation	4,517	4,250	4,367	4,830	5,308
Long term debt	9,480	9,064	8,411	7,940	6,350
Shareholders' equity	47,960	48,914	50,210	52,284	54,514
Net income (loss) as a percentage of shareholders' equity at the beginning of the year*	5.99	5.63	7.38	8.68	9.66
Per common share					
Net income (loss)*	1.03	1.00	1.35	1.65	1.92
Cash flow*	2.83	2.70	3.09	3.56	4.02
Dividends	.60	.60	.70	.80	1.00
Shareholders' equity	17.85	18.28	18.87	19.69	20.59
Number of shareholders	7,724	7,461	7,046	7,111	6,970

(1) Figures for 1966 are after transfer of reserves for inventories and marketable securities and include Penmans Limited for the first time

(2) Figures include foreign subsidiaries for the first time

(3) For the fifteen months ended June 30th

*Commencing 1967, profit on sale of marketable securities and fixed assets is included

1964	1965	1966 (1)	1967 (2)	1968 (3)
$151,585	$161,601	$178,324	$129,585	$208,646
6,709	6,101	5,119	(6,998)	(8,056)
6,369	5,910	7,346	(3,678)	5,300
36,555	49,860	49,913	52,271	51,112
2.50	3.45	2.10	1.86	2.02
10,564	19,765	31,139	19,314	4,852
7,776	7,796	8,713	9,257	11,934
5,900	37,450	32,000	52,000	49,535
57,715	60,335	79,939	74,892	77,294
11.68	10.24	12.18	(4.60)	7.08
2.43	2.25	2.79	(1.45)	2.00
5.47	5.31	6.46	1.15	3.35
1.20	1.20	1.25	1.00	1.05
21.80	22.82	30.26	28.32	29.26
6,737	6,856	6,790	6,766	7,098

Directors

* F. Ryland Daniels, Montreal
Chairman of the Board,
Dominion Textile Company Limited

Marcel Faribault, LL.D., Montreal
Chairman of the Board,
Rougier Inc.

* G. Blair Gordon, Montreal
Chairman of the Board,
Penmans Limited

J. Claude Hébert, Montreal
President,
Canadian Executive Service Overseas

* Edward F. King, Montreal
President and Chief Executive Officer,
Dominion Textile Company Limited

* D. Ross McMaster, Q.C., Montreal
McMaster, Meighen, Minnion, Patch & Cordeau,
Barristers and Solicitors

* Jack Pembroke, C.B.E., Montreal
Chairman of the Board and of the Executive Committee,
The Royal Trust Company

Ronald H. Perowne, Montreal
Vice-President and General Manager,
Dominion Textile Company Limited

W. Culver Riley, Winnipeg, Manitoba
Chairman of the Board,
The Canadian Indemnity Company

Frank H. Sobey, Stellarton, Nova Scotia
Chairman of the Board,
Sobeys Stores Limited

* Colin W. Webster, Montreal
President,
Canadian Import Limited

* *Member of the Executive Committee*

Officers

F. Ryland Daniels, *Chairman of the Board*

Edward F. King, *President and Chief Executive Officer*

Ronald H. Perowne, *Vice-President and General Manager*

N. E. Kenrick, *Vice-President and Comptroller*

C. A. McCrae, *Vice-President – Finance and Treasurer*

W. J. Veitch, *Vice-President – Project Research*

L. P. Webster, *Vice-President – Administration*

C. M. Beck, *Secretary*

G. W. Webster, *Assistant Treasurer*

G. F. Michals, *Assistant Treasurer*

TEX MADE

Challenge of change

Tex-made...the Fabric People

Changing ways of a fast-moving world and the technological advances that make them possible show up dramatically in the textile industry. The emergence of new fibres, new fabrics, new colours and new fashion brings continuing challenge to the manufacturer.

Since 1905, Dominion Textile has grown and changed with the times to meet the needs and desires of Canadians. It has followed an aggressive policy of modernization, expansion of existing facilities and the building of new plants to serve the growing and changing market.

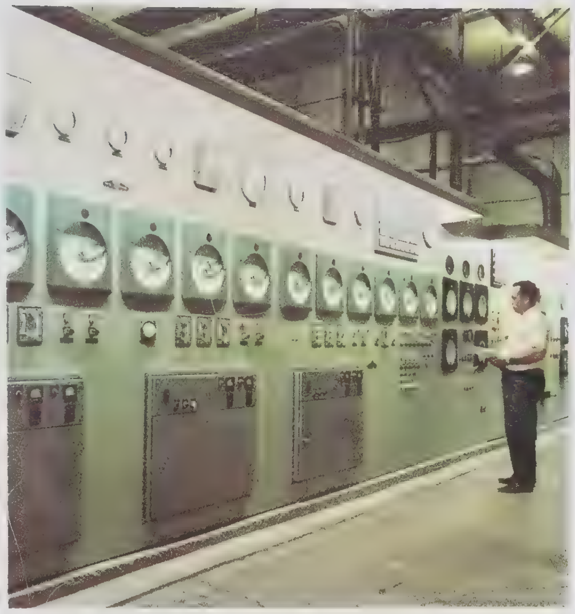
The Company has been spinning and weaving man-made fibres for over 20 years, and in 1964 built an extension to its Domil plant in Sherbrooke to increase production of fabrics and yarns of man-made fibres and blends of cotton with man-made fibres. This type of plant, a first in North America, was part of a $90,000,000 capital investment programme which in the last five years covered an extensive modernization of existing facilities and construction of new ones.

In step with the developing market in blend fabrics, a new grey cloth plant was built at Long Sault and the Beauharnois Finishing Plant was erected to replace older facilities, to provide increased capacity and to allow for a greater variety of finishes, many requiring new techniques.

This $20,000,000 Beauharnois dyeing and finishing plant at St. Timothée, Quebec, is an example of the dynamism of Dominion Textile meeting the challenge of change.

Situated 30 miles west of Montreal on the Beauharnois canal, it was designed and engineered by Company personnel and combines advanced concepts of textile technology with the skills and experience acquired through more than 60 years of leadership in the fabrics business.

The one-storey plant of 536,000 square feet was designed and equipped



to process a wide range of cotton and blend fabrics. The production area utilizes 382,600 square feet and the balance houses automated warehousing and shipping facilities.

The capacity of this modern finishing plant is in excess of 1.5 million yards a week. The design of the plant and the existing service facilities allow for doubling this volume without major interruption of the present manufacturing processes.

Here in any day's production, you will find fashion's favourite colours in fabrics for Canadian manufacturers of sportswear, rainwear, dresses, lingerie, slacks, shirts, uniforms, draperies, mattress covers, luggage linings and a great variety of other familiar consumer and industrial products.

As various processes are applied at high temperatures, the ventilation system, designed for efficiency and employee comfort, permits a complete change of all air throughout the plant every two minutes.

In addition, more than $800,000 was spent to construct a system to treat all water used in the finishing processes before it is returned to the Beauharnois canal for use by others. This water treatment system removes all process wastes from the more than 2 million gallons of water used daily and aerates the water for six days in a special lagoon as a positive contribution to avoid further pollution of our national water resources.

Modern plant and machinery, extensive quality control, computerized inventory and order control and six decades of textile know-how brought together at Beauharnois, demonstrate Dominion Textile's ability to meet the challenge of change.

Through the years Dominion Textile has led in the development of new fabrics, finishes and products. The Company pioneered by producing in Canada fabrics with the durable press finishes. The Tex-made Truprest tag quickly became a symbol of quality in that field. Whether you put on a pair of shoes or a shirt or a pair of pyjamas or a raincoat, ride a "Skidoo", sleep in a tent, bandage a finger, buy a sail for a boat or a sheet for a bed, chances are you are in contact with Tex-made fabrics and yarns. They are made for these and many other uses.

Constant awareness of the change in demand and in technological developments plays an important role in maintaining Dominion Textile's growth and leadership in the Canadian textile industry.

Quality from start to finish

Manufacturing textiles of consistently high quality is a complex operation. Throughout our entire organization it requires the application of carefully programmed procedures by competent and experienced personnel and the use of modernized and new facilities and equipment.

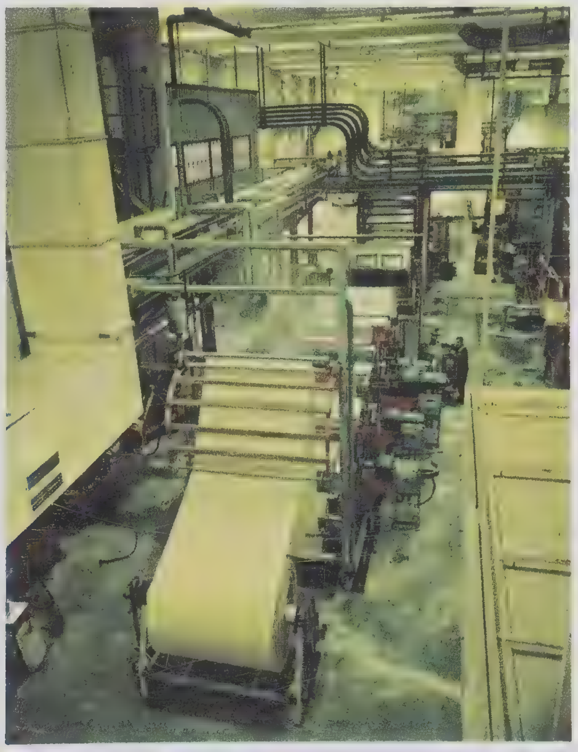
The Beauharnois installation is an outstanding illustration of this concept.

The pictures on these pages show some examples of intricate production machinery — an open-width bleach range, a continuous dyeing range with Thermosol unit essential for dyeing many shades of polyester blends, and finishing frames. Modern, high-speed machines apply a variety of colours and sophisticated finishes such as Tex-made's Truprest for apparel and household fabrics.

Tex-made's exclusive and superior durable press finish is applied under rigid quality control procedures justifying the Truprest claim that "when you wash it you've ironed it".

Another of the tools contributing to the effective operation of this modern dyeing and finishing plant is the third generation computer used to control production, scheduling, processing and shipments.

Quality standards required to satisfy the needs of both our customers and the consumer are maintained by numerous checks at various production stages and by meticulous inspection of the finished product.



Behind all this . . . people. We said earlier that the manufacture of consistently high quality textiles requires the use of many technologies and advanced equipment. Equally necessary are experienced and dependable people. We are fortunate in having a working force of competent and loyal men and women.

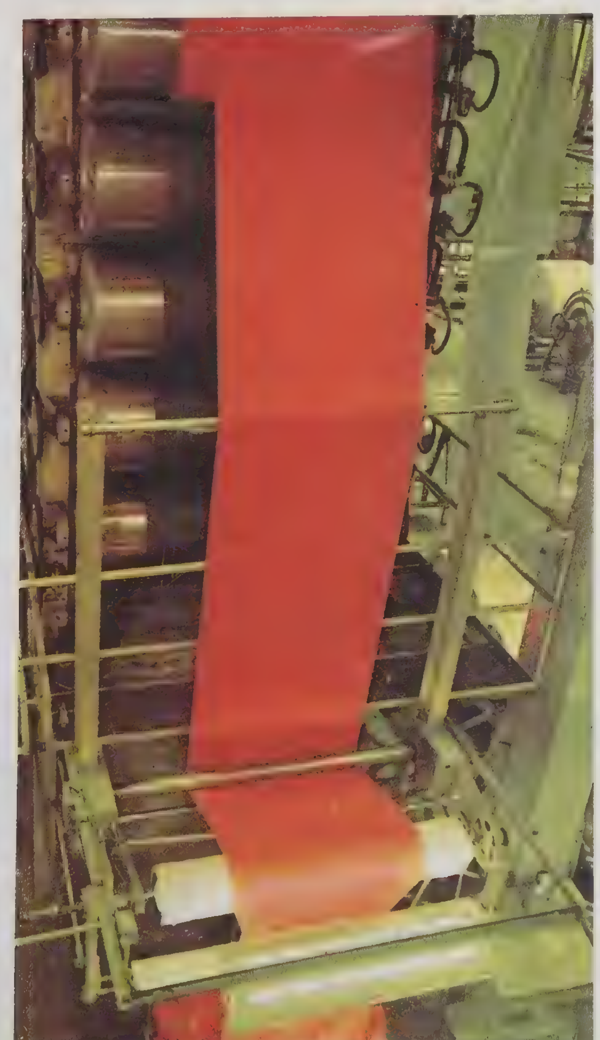
For things you wear and use

It is through the combination of capable people and up-to-date facilities that Dominion Textile and its subsidiaries provide the market with attractive, reliable and practical textiles.

As designers and customers call for more eye-appeal the trend today is toward brighter, bolder, more exciting shades, colours and patterns. Paralleling this, the demand for diverse and better fabric finishes continues and every year dyeing and finishing processes become increasingly precise and exacting.

Beauharnois and the other plants of the Dominion Textile group keep abreast of and anticipate these trends and demands producing textiles of many weights and weaves from cotton, man-made fibres or blends of both, for a multitude of end-uses in industry, in the home and for apparel.

The first polyester/cotton percale fashion sheets and pillow cases to be offered to Canadian consumers carry the Truprest trade mark.

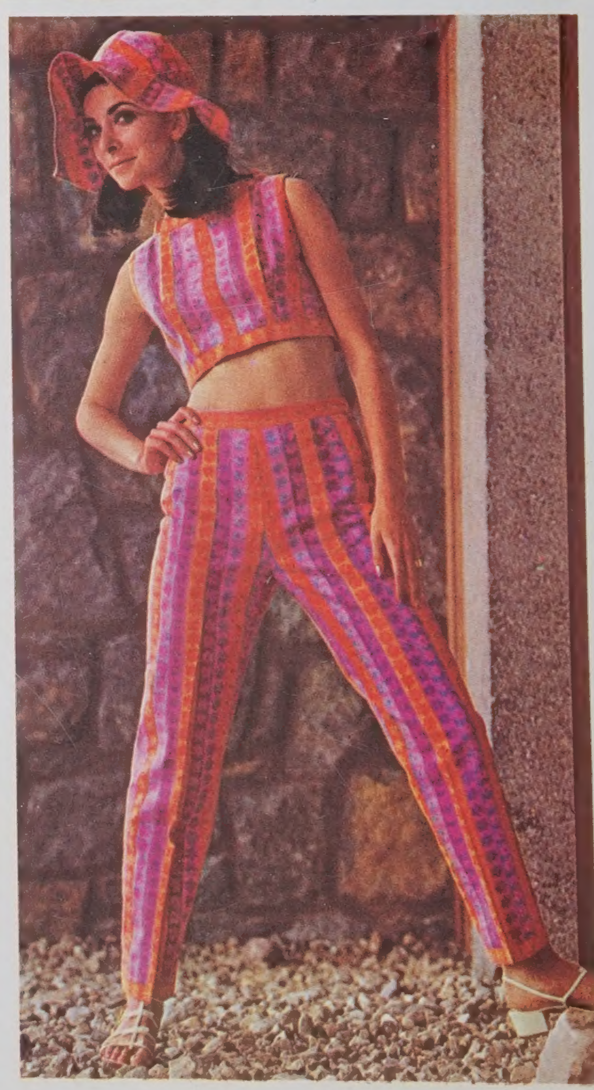


Now the colour and excitement of fashion plus the no-iron features of durable press are available in a quality Canadian sheet.

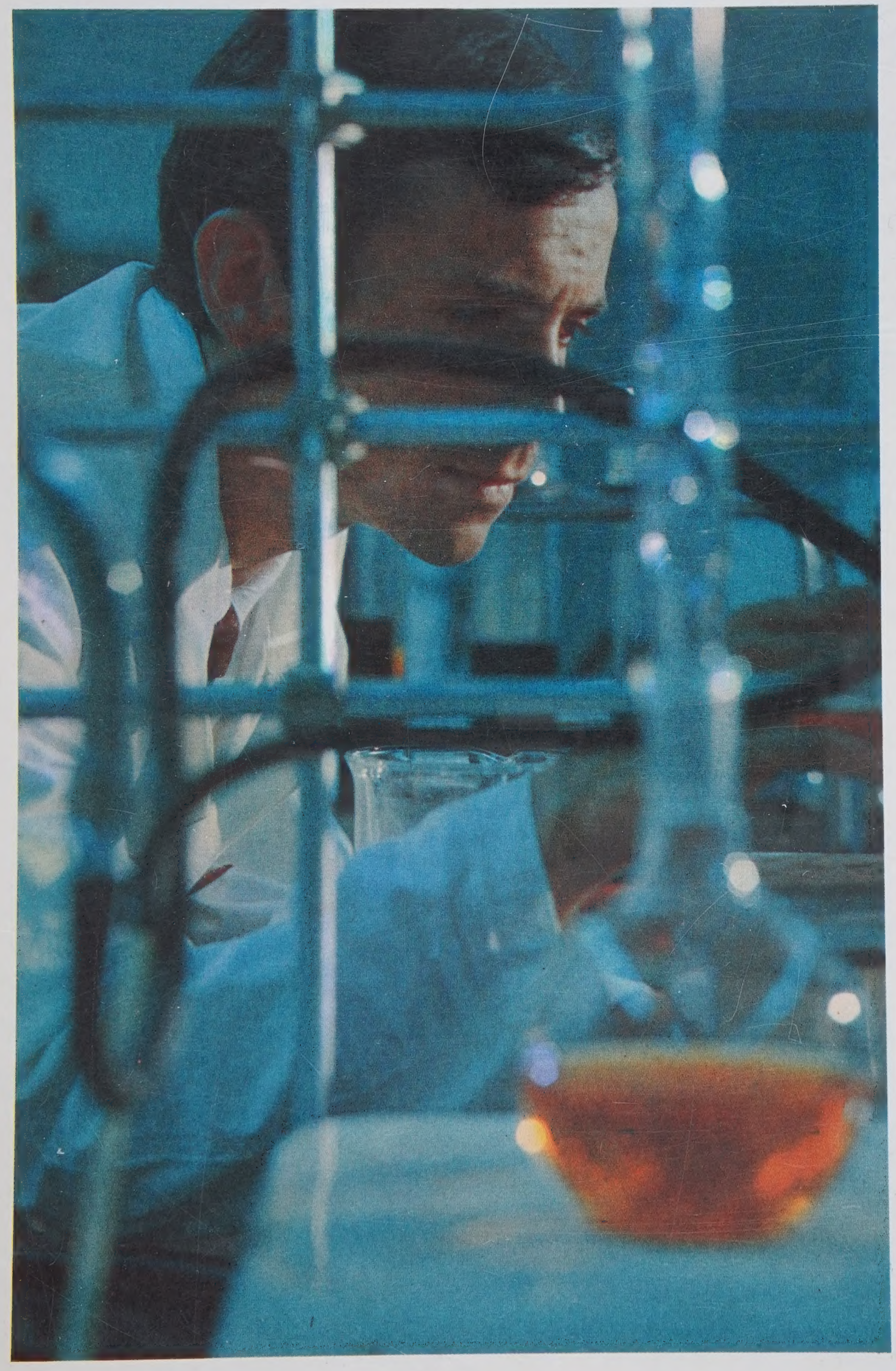
Truprest fabrics in a wide variety of weights, weaves and designs are used by leading manufacturers of wearing apparel for men, women and children. Our durable pressed fabrics are made into blouses, dresses, nightwear, sportswear, rainwear, slacks, dress shirts, sport shirts, jackets and work clothes.

Beautiful towels by Caldwell offer the Canadian consumer the colour and appeal of a wide range of the newest in stripes, prints and jacquards with 24 richly co-ordinated plain shades.

From Penmans Limited — one of the largest knitting firms in Canada — comes all types of knitted underwear, sportswear and hosiery for men, women and children.

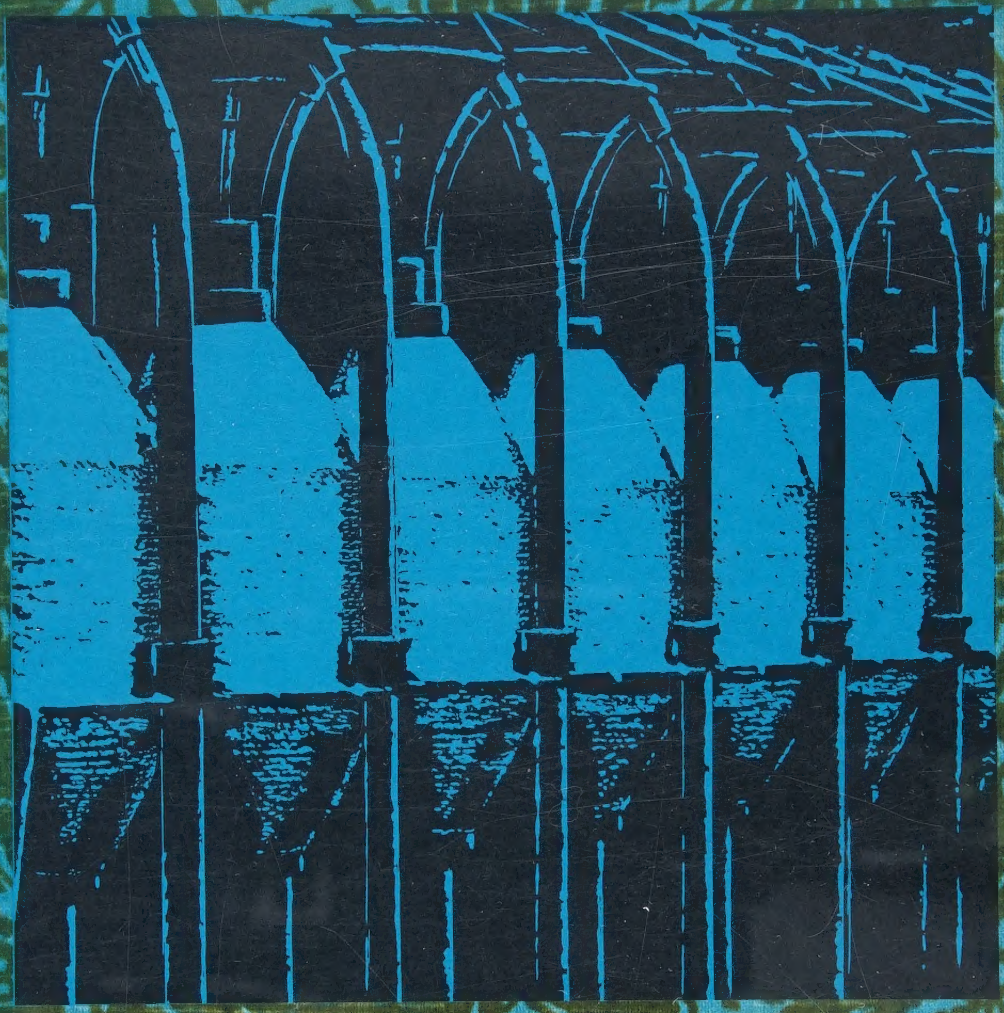


Today and Tomorrow



Dominion Textile is the leader in the Canadian textile industry. This achievement resulted from a willingness to innovate, aggressiveness, a strong market orientation and a reputation for quality.

Beauharnois was built in the spirit of this tradition to demonstrate further Dominion Textile's ability to respond to the challenge of change.



Dominion Textile Company Limited
Annual Report 1968